



OFFICE OF  
**INSPECTOR  
GENERAL**  
UNITED STATES POSTAL SERVICE

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**Every Door Direct Mail-Retail**

**Audit Report**

May 7, 2012

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**Report Number MS-AR-12-004**



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# HIGHLIGHTS

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## **IMPACT ON:**

Policies and procedures for transitioning and implementing Every Door Direct Mail-Retail® (EDDM-R) as a permanent market-dominant product. EDDM-R was designed to reduce the complexity and expense of direct mail for small and medium-sized businesses by simplifying mail entry. The EDDM-R product is a Standard Mail® flat weighing less than 3.3 ounces that requires mailers to use simplified addressing.

## **WHY THE OIG DID THE AUDIT:**

Our objective was to evaluate the status of the planned transition of EDDM-R from an experimental product to a permanent market-dominant product.

## **WHAT THE OIG FOUND:**

The EDDM-R product is rapidly approaching the annual revenue cap imposed by law for experimental products. Consequently, the U.S. Postal Service must act quickly to transition the product from experimental to permanent status to avoid disrupting marketing momentum. In transitioning the product to permanent status, the Postal Service could improve its methodology for measuring product success, strengthen controls over acceptance and verification, and better monitor product costs.

## **WHAT THE OIG RECOMMENDED:**

We recommended the vice president, Domestic Products, provide a timely request to the Postal Regulatory Commission to add EDDM-R as a permanent product; develop better sources and methodologies to measure how well the product is meeting goals; evaluate, monitor, and test controls; continue efforts to strengthen controls and streamline acceptance procedures; and monitor and evaluate product costs.

## **WHAT MANAGEMENT SAID:**

Management agreed with the findings and recommendations and has established target dates for implementation beginning no later than August 2012. Management did not agree with the other impact of \$150 million.

## **AUDITORS' COMMENTS:**

Management's comments are responsive and corrective actions should resolve the issues identified in the report. We believe that in light of control weaknesses and the rapid growth of EDDM-R, \$150 million of Other Impact conservatively reflects the amount of revenue at risk.

[Link to review the entire report](#)



May 7, 2012

**MEMORANDUM FOR:** GARY C. REBLIN  
VICE PRESIDENT, DOMESTIC PRODUCTS

A rectangular box containing a handwritten signature in black ink that reads "Darrell E. Benjamin, Jr.". To the right of the signature is a small yellow square icon with a question mark.

**FROM:** Darrell E. Benjamin, Jr.  
Deputy Assistant Inspector General  
for Revenue and Systems

**SUBJECT:** Audit Report – Every Door Direct Mail-Retail  
(Report Number MS-AR-12-004)

This report presents the results of our audit of the Every Door Direct Mail-Retail (EDDM-R) product (Project Number 12RG018MS000). Our objective was to evaluate the status of the planned transition of EDDM-R from an experimental product to a permanent market-dominant product.

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Janet Sorensen, director, Marketing and Service, or me at 703-248-2100.

Attachments

cc: Megan J. Brennan  
Paul Vogel  
David Mastervich  
Corporate Audit and Response Management

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## Introduction

This report presents the results of our audit of the Every Door Direct Mail-Retail<sup>®</sup> (EDDM-R) product<sup>1</sup> (Project Number 12RG018MS000). Our objective was to evaluate the status of the planned transition of EDDM-R from an experimental product to a permanent market-dominant product. This self-initiated audit addresses strategic risk. See [Appendix A](#) for additional information about this audit.

In March 2011, pursuant to 39 U.S.C. § 3641, the U.S. Postal Service launched a market test of the experimental market-dominant product, EDDM-R.<sup>2</sup> The law allows the Postal Service to test experimental products under certain conditions but limits the trial to 24 months and the revenue to \$50 million for any year.

EDDM-R was designed to reduce the complexity and expense of direct mail for small and medium-sized businesses by providing the opportunity to mail without permits or related fees and simplifying mail entry. The EDDM-R product is a Standard Mail<sup>®</sup> flat weighing less than 3.3 ounces that requires mailers to use simplified addressing. The EDDM-R product is intended to serve small and medium-sized businesses that do not currently use Postal Service products by reducing the complexity and expense of direct mail. The EDDM-R product allows mailers to use simplified addressing, such as “Postal Customer,” which eliminates the need for obtaining and printing detailed addresses. The product also includes the convenience of local entry and payment at retail units, the simplicity of a single price, and a waiver of all permit<sup>3</sup> and mailing fees.

The Postal Service has been facing a financial crisis for the last several years and its outlook is not expected to improve in the near future. The Postal Service has been unable to cut costs quickly enough to keep pace with declining mail volume or generate additional revenue to offset the loss. A U.S. Postal Service Office of Inspector General (OIG) white paper<sup>4</sup> reported that appealing to small businesses with simplified addressing for direct mail could potentially improve the Postal Service’s annual net income by an estimated \$1.2 billion.

## Conclusion

The EDDM-R product market test has shown potential for generating significant new revenue for the Postal Service. Having already exceeded the Postal Service’s original projections of about \$10 million in annual revenue, the product is rapidly approaching the \$50 million annual revenue cap imposed by law. Consequently, the Postal Service

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<sup>1</sup> This report uses the word ‘product’ generically, not as defined in the Postal Accountability and Enhancement Act of 2006.

<sup>2</sup> The product was initially named Marketing Mail Made Easy but was changed to EDDM-R.

<sup>3</sup> You must hold a permit (authorization to mail) and pay an annual mailing fee at every Post Office where you want to enter and pay for bulk or commercial mail.

<sup>4</sup> *Simplified Address Mail: An Easier Way for Small Businesses to Reach Local Customers for Small Businesses to Reach Local Customers* (Report Number RARC-WP-11-004, dated May 10, 2011).

must act quickly to transition the product from experimental to permanent status to avoid disrupting marketing momentum. In anticipation of a permanent product, the Postal Service should also develop a clearer methodology for measuring success, enhance management controls over EDDM-R, and monitor product costs.

## Revenue Cap

Although the Postal Service intends to transition EDDM-R from an experimental to a permanent product within the next few months, it must act quickly to meet the legal requirements for new market-dominant products. EDDM-R sales quickly exceeded revenue expectations and have seen growth rates averaging about 20 percent per month. As a result, the product may exceed the \$50 million revenue annual limit imposed by law<sup>5</sup> by March 2013.

While the law does not mandate a consequence if an experimental product exceeds the \$50 million statutory revenue limit, the Postal Regulatory Commission (PRC) could terminate the market test or impose fines against the Postal Service. Termination or suspension of the market test would be disruptive to customers and could stifle the impressive sales momentum achieved thus far.

The Postal Service is collecting revenue and volume data on EDDM-R sales, which it intends to use to support its request to the PRC. However, Postal Service efforts have mostly focused on promoting EDDM-R and officials have not yet begun to draft a request for permanent status. The Postal Service must expedite its efforts to prepare a request for permanent status, with particular focus on potentially difficult requirements, which include impact on the market place, small business concerns, and the requirement that the product bear its costs.

## Measuring Product Success

The Postal Service could improve its methodology for determining the extent to which EDDM-R is meeting its goal of attracting small and medium-size businesses that have not previously used direct mail. Currently, the Postal Service does not directly measure the number of existing customers shifting from other products to EDDM-R. Such information would substantiate the Postal Service's requirements for transitioning the product to permanent status, in particular the provisions of the law concerning impact on the marketplace and small business concerns. Stronger data might also provide some assurance to mail service providers that have expressed concern that EDDM-R might attract their existing customers rather than generate new customers.

The Postal Service provides periodic reports on the status of the EDDM-R market test that include information about the customers using a different Postal Service product. The Postal Service determines this number based on whether the mailer had a mailing permit and used that permit 90 days before mailing its EDDM-R product. The Postal Service used this methodology because the data are available, simple, and, although

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<sup>5</sup> 39 U.S.C. 3622.

the choice of 90 days was somewhat arbitrary, gives some sense of whether or not a customer regularly uses direct mail. Furthermore, the Postal Service did not want to complicate the registration process with additional questions and explanations. However, as this product is transitioned to a permanent product, a more accurate measure of the number of new customers versus the number of existing customers shifting from other products to EDDM-R is critical for market intelligence and product evaluation.

### Enhanced Management Controls

EDDM-R mail acceptance and verification procedures include verification of the mailer's postage statement, sample mailpiece, carrier route information, dimension, and weight. Although these procedures provide some measure of revenue protection, further improvements are necessary as the EDDM-R product is more widely used and generates more revenue.

For example, we noted that improvements could be made to the payment acceptance and mail verification processes. Specifically:

- There is not always a separation of duties between those who receive payment and those who verify the mail. Unlike business mail acceptance clerks, window clerks accepting EDDM-R mail receive cash, check, or debit card payments for EDDM-R mailings.
- Bundle and payment verification might not be performed before the mail is dispatched if customers bring the mail to the retail unit loading dock rather than the retail counter.
- Input errors can occur when retail associates manually input volume and payment information. The Postal Service has not established specific timelines, but is working to streamline and enhance the Point-of-Sale and Business Gateway Systems related to the EDDM-R program to strengthen controls and enhance the customer experience. Such improvements include a system-generated, barcoded invoice that would be presented to the Postal Service and scanned by a retail associate. These system improvements would reduce the manual verification processes that increase the risk of input errors.

Currently, the Postal Service is not testing or monitoring acceptance and verification controls because the risk is lower while product volume and revenue are relatively low. The Postal Service plans to include EDDM-R in its Sarbanes-Oxley testing in FY 2013. However, the risk continues to grow as EDDM-R sales are increasing at a rapid pace and could see even greater growth when the Postal Service transitions the product to permanent status. We identified \$150 million of revenue potentially at risk<sup>6</sup> related to

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<sup>6</sup> Revenue the Postal Service is at risk of losing (for example, when a mailer seeks alternative solutions for services currently provided by the Postal Service). The amount at risk is based on 3 fiscal years of revenue at the cap of \$50 million per year currently imposed by 39 U.S.C. §3641.

weakness in management controls. As the Postal Service transitions the product to permanent status, it must reassess risk and control procedures and plan for testing and monitoring compliance.

### Costs of the Every Door Direct Mail-Retail Product

One of the requirements for new products is that it bear its direct and indirect costs.<sup>7</sup> The Postal Service believes that EDDM-R meets that criteria based on the cost coverage for Standard Mail saturation<sup>8</sup> flats. However, EDDM-R costs might be lower than the average for saturation mail because mail handling and transportation costs are limited for EDDM-R. EDDM-R costs might also be lower because of the reduced time required for each acceptance transaction, through volume size limits, bundling requirements, a single price, and a simplified postage statement.

The Postal Service did not create comprehensive cost information for the market test, and, because EDDM-R volume is low, it is not currently practical to track costs. However, as the Postal Service transitions the product to permanent status and volume rises, the Postal Service must monitor costs to ensure the cost assumptions are accurate. Increased volume and changes to product requirements or procedures, such as complicating acceptance procedures, could impact costs.

### Recommendations

We recommend the vice president, Domestic Products:

1. Provide a timely request to the Postal Regulatory Commission to add Every Door Direct Mail-Retail as a permanent product by identifying and obtaining the necessary data and information to meet regulatory requirements.
2. Develop better sources or methodologies to more accurately measure the extent to which Every Door Direct Mail-Retail is meeting its goals.
3. Review management controls over Every Door Direct Mail-Retail acceptance, conduct a risk assessment, and plan for monitoring and testing of controls.
4. Continue plans to enhance the Business Gateway and Point-of-Sale Systems to strengthen controls and streamline the Every Door Direct Mail-Retail process and develop timelines for implementation.
5. Monitor product costs and evaluate cost impacts of any changes to Every Door Direct Mail-Retail product specifications or procedures.

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<sup>7</sup> 39 U.S.C. §3622(c)(2).

<sup>8</sup> Saturation mail is a carrier route price that requires preparing the mail in walk sequence, with mail that is 90 percent or more of the active residential addresses or 75 percent or more of the total number of active possible delivery addresses per route receiving this mail.

## Management's Comments

Management agreed with our findings and recommendations. Regarding recommendations 1 and 2, management stated they have prepared a business case for the product and will file with the PRC by July 2012. Management has also made recent enhancements to current tracking tools and anticipates more significant methodologies for measurement with the integration to USPS.COM in August 2012.

Regarding recommendation 3, management stated that EDDM-R was reviewed by a Sarbanes-Oxley compliance team which made recommendations related to separation of duties that will be incorporated in August 2012. Other solutions will be developed by Retail Operations and implemented by August 2012.

Regarding recommendation 4, management stated that they have taken steps to address the customer registration process and payment system, resulting in more effective controls and a streamlined customer experience. They will implement a phased solution beginning in August 2012, with anticipated completion by June 2013.

Regarding recommendation 5, management stated that the Costing Department will determine a methodology for monitoring and evaluating costs as part of the PRC filing scheduled for July 2012.

Management did not agree with the \$150 million revenue at risk related to weaknesses in management controls and stated that the risk of weakness in separation of duties applied to a small percentage of units, that it is not clear that verification activities are not being performed; and that retail units have been accepting business mail for many years.

See [Appendix B](#) for management's comments in their entirety.

## Evaluation of Management's Comments

The OIG considers management's comments responsive to the recommendations and corrective actions should resolve the issues identified in the report. Regarding management's comments concerning the \$150 million revenue at risk, we believe that amount conservatively reflects the amount of EDDM-R revenue at risk in light of the control weaknesses we identified and the rapid growth of EDDM-R. Management indicated the risk of weakness in separation of duties exists at a small percentage of units. While this is true for EDDM mail which is accepted at business mail entry units (BMEU), the potential for this risk for EDDM-R exists at virtually all retail units, as Postal Service policy currently allows retail clerks who accept payment to also verify the mail. We agree with management's statement that it is unclear whether verification activities are being performed. As EDDM-R volume grows, it will be important for the Postal Service to monitor and test controls.

Concerning management's statement that acceptance of EDDM-R does not constitute a new activity for retail units, unlike BMEUs which have clerks and technicians with formal training in business mail acceptance, many retail units do not have staff with those qualifications or experience.

## Appendix A: Additional Information

### Background

Title 39 U.S.C. § 3641 allows the Postal Service to test experimental products under certain conditions. The law limits the experimental time to 24 months and revenue to \$10 million in any given 12-month period, but authorizes the PRC to grant an exemption of up to \$50 million. On January 12, 2011, the Postal Service filed a notice, pursuant to 39 U.S.C. § 3641, announcing its intent to initiate a market test of an experimental market-dominant product, EDDM-R. The PRC approved the Postal Service's request to market test EDDM-R and the Postal Service launched EDDM-R in March 2011. Because sales of the EDDM-R product grew more quickly than anticipated, the Postal Service requested the PRC to grant an exemption to the \$10 million revenue cap. The PRC granted it in January 2012.

EDDM-R was designed to reduce the complexity and expense of direct mail for small and medium-sized businesses by providing the opportunity to mail without permits or related fees and simplifying mail entry. The EDDM-R product is a Standard Mail flat weighing less than 3.3 ounces that requires mailers to use simplified addressing. Simplified addressing, such as "Postal Customer," eliminates the need for obtaining address lists and potentially reduces printing time and costs. The product also includes the convenience of local entry and payment at retail units, the simplicity of a single price, and a waiver of all permit and mailing fees. Other restrictions apply, such as the mailing must comprise a minimum of one full carrier route and the daily quantity cannot exceed 5,000 pieces per delivery unit.

To request permanent status for the EDDM-R product, the Postal Service must follow the provisions of 39 U.S.C. §3642 and regulations under 39 CFR 3020.32. Those requirements include such stipulations as the Postal Service must file with the PRC and publish in the *Federal Register* a notice setting out the basis for its determination that the product satisfies the criteria for new products. The PRC is under no legal time constraint to review and decide on requests to add new products. The time required would depend on a number of factors, such as the strength of data and supporting information the Postal Service provides to demonstrate that the product meets requirements and show the complexity and controversy of related issues. Typically, the PRC allows 30 days for public comment and time for the Postal Service to respond and for the PRC to evaluate comments.

### Objective, Scope, and Methodology

Our objective was to evaluate EDDM-R planned transition from experimental to permanent status as a market-dominant product. Our audit scope focused on EDDM-R and covered the period from March 2011 through January 2012. Our methodology included a review of laws, regulations, policies, and procedures related to EDDM-R;

interviews with Postal Service staff responsible for EDDM-R; and review of supporting documents and data.

We conducted this performance audit from January through May 2012 in accordance with generally accepted government auditing standards and included such tests of internal controls as we considered necessary under the circumstances. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. We discussed our observations and conclusions with management on March 27, 2012, and included their comments where appropriate.

We assessed the reliability of EDDM-R revenue data by interviewing agency officials knowledgeable about the data. We determined that the data were sufficiently reliable for the purposes of this report.

#### [Prior Audit Coverage](#)

The OIG did not identify any prior audits or reviews related to the objective of this audit.

## Appendix B: Management's Comments

GARY C. REBLIN  
VICE PRESIDENT, DOMESTIC PRODUCTS



April 25, 2012

LUCINE WILLIS  
DIRECTOR, AUDIT OPERATIONS

SUBJECT: Every Door Direct Mail Retail MS-AR-12-Draft

The findings and recommendations outlined in the Every Door Direct Mail Retail draft audit have been reviewed and a response from Domestic Products is as follows.

### **Recommendation [1]:**

Provide a timely request to the Postal Regulatory Commission to add Every Door Direct Mail Retail as a permanent product by identifying and obtaining the necessary data and information to meet regulatory requirements.

We agree with this recommendation. The Marketing Mail Department has prepared the Business Case for the Every Door Direct Mail Retail product needed to file for full product status with the Postal Regulatory Commission. The filing documentation will include all necessary data and information and will be in concurrence with legal requirements. The target filing date is July 2012.

### **Target Implementation Date:**

The target filing date is July 2012.

### **Recommendation [2]:**

Develop better sources or methodologies to more accurately measure the extent to which Every Door Direct Mail Retail is meeting its goals.

We agree with this recommendation. Recent enhancements to current tracking tools (Retail Data Mart; online tool metrics) will provide more meaningful data in relation to product and revenue goals for the Every Door Direct Mail Retail product. An even more significant array of methodologies will become available in August 2012 as Every Door Direct Mail and Every Door Direct Mail Retail

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become integrated with USPS.COM. Included in the integration will be modules for customer registration, Point of Sale, the Every Door Direct Mail Online Tool, and the functionality to create and save activity history. Reporting and metrics query capabilities will provide a variety of detailed reports for complete analysis of the Every Door Direct Mail Retail product.

**Target Implementation Date:**

August 2012

**Recommendation [3]:**

Review management controls over Every Door Direct Mail Retail acceptance, conduct a risk assessment, and plan for monitoring and testing of controls, as required.

We agree with this recommendation. The Every Door Direct Mail Retail product was evaluated by a SOX compliance team that reviewed current retail SOPs and made recommendations relating to the separation of duties when entering EDDM at Retail and processing payment for the mailing. Most of the recommendations will be addressed in the integration of EDDM with USPS.COM. However solutions to other outstanding issues will be developed by the Retail Operations group.

**Target Implementation Date:**

SOX review completed April 2012, recommendations will be incorporated in August 2012.

**Recommendation [4]:**

Continue plans to enhance the Business Gateway and Point of Sale Systems to strengthen controls and streamline the Every Door Direct Mail Retail process and develop timelines for implementation.

We agree with this recommendation. The Marketing Mail Team has built a Business Needs Statement and the subsequent DAR that will specifically address the customer registration process (BCG) and the POS payment system resulting in more effective controls and a streamlined customer experience. We will have a phased solution with phase 1 in August 2012 and phase two in June 2013.

**Target Implementation Date:**

August 2012

**Recommendation [5]:**

Monitor product costs and evaluate cost impacts of any changes to Every Door Direct Mail Retail product specifications or procedures.

We agree with this recommendation. As part of the PRC filing scheduled for July 2012, the USPS Costing Department will determine a methodology for monitoring product costs and evaluating any subsequent cost impacts.

**Target Implementation Date:**

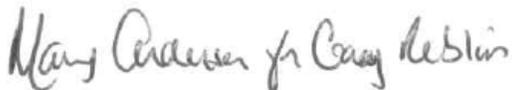
August 2012

**Responsible Official:**

David Mastervich, Manager Catalogs and Saturation Mail, Domestic Products

**Additional Comments:**

Management disagrees with the other impact of \$150 million as outlined in the report. The premise of the other impact is based on segregation of duties, possible verification and manual input errors and lack of training. While there are segregation of duties conflicts at a small percentage of units that accept EDDM, this does not exist in the majority of units. In addition, based on the data, it is unclear if verification activities are not being performed and if so at what percentage of the units. Based on this, it does not seem reasonable to conclude that all retail EDDM revenue is at risk. Also, the acceptance of business mail over the retail counter has successfully occurred for many years. The acceptance of EDDM at retail does not constitute significantly new activities that would create compliance issues at retail. Based on this, management disagrees with the other impact of \$150 million as outlined in the report.



Gary C. Reblin

cc: Megan J. Brennan  
David Mastervich  
Paul Vogel  
Corporate Audit and Response Management